

Session Objective

The panel will briefly describe the most important changes of the Modernization effort, including the establishment of the four new Operating Divisions, the impact upon taxpayers and their representatives, and what to expect in 2000. The Taxpayer Advocate will highlight taxpayer impact on the establishment of the new Office of Taxpayer Advocate Services.

Moderator and Panelists

Moderator:

Fred T. Goldberg, Jr - Skadden, Arps, Slate, Meagher & Flom LLP, former Assistant Secretary of Treasury for Tax Policy, IRS Commissioner, and IRS Chief Counsel

Panelists:

<i>John LaFaver</i>	<i>Deputy Commissioner Modernization, Internal Revenue Service</i>
<i>John Dalrymple</i>	<i>Commissioner Designee, Wage and Investment Division, Internal Revenue Service</i>
<i>Joseph Kehoe</i>	<i>Commissioner Designee, Small Business/Self Employed Division Internal Revenue Service</i>
<i>Jerry Songy</i>	<i>Executive Director, Modernization Design, Internal Revenue Service</i>
<i>Larry Langdon</i>	<i>Commissioner, Large and Mid-Size Business Division, Internal Revenue Service</i>
<i>Evelyn Petschek</i>	<i>Commissioner, Tax Exempt and Government Entities Division, Internal Revenue Service</i>
<i>Val Oveson</i>	<i>National Taxpayer Advocate, Internal Revenue Service</i>

Modernization Update

The New IRS Stands UP

Panel 1: Overview

What the Modernized Agency Means for YOU

Since January 1998 and continuing with the enactment of the Restructuring and Reform Act of 1998, the Internal Revenue Service (IRS) has been working to provide top quality service to taxpayers by helping them understand and meet their tax responsibilities, and by applying the tax law with integrity and fairness.

To accomplish this new mission, the IRS needs to understand and solve problems from the taxpayer's point of view; ensure that managers are more accountable; and implement balanced measures of performance to measure taxpayer and employee satisfaction. To meet these objectives, the new IRS structure will be organized around four major taxpayer segments: wage and investment taxpayers; small businesses and self employed taxpayers; large and mid-sized businesses; and tax exempt and government entities.

Each step we take to modernize America's tax agency brings us closer to our strategic goals: top quality service to each taxpayer, top quality service to all taxpayers and productivity through a quality work environment. Throughout the modernization process, we have always been committed to maintaining and enhancing critical services such as new procedures to ensure taxpayer rights; improved access on the telephone; expanded availability of bilingual assistants over the telephone for Spanish speaking taxpayers; and standardization of operations in the Taxpayer Assistance Centers. These services demonstrate identifiable progress already made toward developing a more taxpayer-friendly organization. Overall, we are aiming to make the modernization transition effort transparent from the taxpayers' perspective to minimize disruption of service.

The new IRS structure will significantly reduce the number of management layers and points of entry from 43 areas to four Operating Divisions, solely dedicated to the specific needs of each taxpayer segment. This new centralized focus will help

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ensure uniform and consistent practices across geographic lines. This change will be carefully synchronized to ensure a smooth transition to the new structure in late 2000.

The four Operating Divisions will be fully responsible for all of the tax administration needs of specific corresponding taxpayer segments. The Wage and Investment Operating Division will serve approximately 116 million taxpayers, whose taxes are primarily reported by and collected through third parties, such as employers and financial institutions. The Small Business/Self-Employed Operating Division will serve approximately 45 million filers composed of fully or partially self-employed individuals and small businesses. The Large & Mid-size Business Operating Division will serve corporations with assets greater than \$5 million. Finally, the Tax Exempt & Government Entities Operating Division will serve three very distinct taxpayer segments: Employee Plans, Exempt Organizations and Government Entities.

Working with our consultants, the IRS first validated this new structure organized around the four Operating Divisions. IRS design teams then developed a detailed blueprint of the new organization, prepared comprehensive implementation plans and built broad ownership for change within the IRS. External feedback from practitioner organizations was solicited and considered throughout this process.

Beginning in January 2000, IRS teams will refine implementation details with the goal of having the modernized four-division structure, including executive leadership and budget authority, in place by October 2000. The new divisions will become fully operational in stages with Tax Exempt and Government Entities already operational since December. Large and Mid-Size Business becomes operational in March 2000, followed by Wage and Investment and Small Business/Self-Employed in the fall of 2000. We have already selected our top management teams for each of the four divisions.

There will be no immediate impact in 2000. This year's filing season will be unaffected. In fact, taxpayers will not see any change in where to file their returns or other processing changes until 2002 at the earliest. The IRS will advise those affected well in advance of any changes in filing requirements. Taxpayer assistance will be available at current sites,

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practitioner hotlines will continue and field contacts and liaison relationships will be unchanged as the IRS transitions to the new structure.

Once operational, most taxpayers will interact with only one Operating Division; all decisions related to a taxpayer case will be handled within that division by a dedicated IRS management team. All taxpayer records will be available to authorized employees in any Operating Division. The intended result under this new structure is that taxpayers and their representatives will have better access to IRS management and staff who have the necessary training, ability and decision-making authority to resolve issues quickly.

There will be more emphasis on pre-filing services and early resolution of complex issues for each of our Operating Divisions. A greater proportion of IRS resources will be allocated to pre-filing activities, such as education and outreach, and early intervention to help taxpayers comply with the tax laws. Post-filing activities will be geared to problem prevention and a risk-based analysis approach with targeted enforcement activities for the noncompliant.

External liaison activities in the field will continue while a national presence will be maintained and enhanced at IRS Headquarters. To reduce any undue disruptions, changes to the field structure will occur in phases during 2000. Taxpayers and practitioners will continue to work with their current contacts unless the IRS notifies them of a change. In addition, localities will publish directories of local phone numbers and make contact information available on the Digital Daily web site. At the local level, current liaison relationships, such as District liaison groups, will continue and become enhanced. Field Territory Managers in the Taxpayer Education and Communication (TEC) organization will have lead responsibility for managing relationships with practitioners in their territories, including organizing liaison meetings and seeing that systematic issues are addressed.

Three elements are vital to the success of the modernization effort. First, it is essential that all participants in, and observers of, this process acknowledge the realistic time requirements of full implementation. Second, continued resource support is necessary to ensure successful implementation. And third, continued interest and support from key stakeholders are critical

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and must be sustained. The modernization process is a wide-ranging and long-term endeavor based on a private-public partnership. The IRS is committed to continuing its stewardship of the tax administration function while implementing a more transparent, customer-focused system that will benefit taxpayers, practitioners and businesses well into the future.